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COMMISSION OF THE EUROPEAN COMMUNITIES

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**COMMISSION STAFF WORKING DOCUMENT**

*Annex to the*

**REPORT FROM THE COMMISSION TO THE COUNCIL**

**on the follow-up to 2005 Discharge Decisions - Council's Recommendations**

COM(2007) 537 final

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## INTRODUCTION

This Working Document completes the Report from the Commission to the Council on the Follow-up to 2005 Discharge decisions {COM(2007)537 final}. It presents in detail the answers to the 87 specific recommendations made by the Council in the comments accompanying its Recommendations on the 2005 Discharges<sup>1</sup>.

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<sup>1</sup> For each specific recommendation a reference is given to the relevant Council document. The references for recommendations 1 to 65 are all for Council document 5710/07 “Discharge to be given to the Commission in respect of the implementation of the budget for the financial year 2005”.

## Annex to the report from the Commission to the Council on the follow-up to 2005 Discharge Decisions - Council's Recommendations

### Introduction

1. Continue working towards the achievement of an effective integrated internal control framework and present a follow up of the Council conclusions from November 2005 through regular up-dates of the Communication on an "action plan towards an integrated internal control framework". (§ 2, page 5)

#### Commission's response:

*The Commission is taking the recommended action.*

*The Commission provided a mid-term scoreboard in July 2007 and a final report on the implementation of the action plan will be provided in early 2008. The final report will take a first look at the impact of the different actions on assurance and will draw conclusions for the future consolidation of the Integrated Internal Control Framework.*

2. Further develop reliable, cost-effective and easily understandable indicators to be audited on an annual comparable basis by the Court. (§ 4, page 6)

#### Commission's response:

*The 2006 Synthesis Report has given further impetus to the development of indicators for the legality and regularity of transactions to support the assurance expressed in annual activity reports.*

*While an increased number of services presented indicators on legality, regularity and performance in their 2006 Annual Activity Reports, continued efforts to develop such indicators will be needed while ensuring a coherent approach by family of services.*

*Indicators for legality and regularity will become compulsory as from the annual activity reports for 2007.*

3. Take further measures and improvements along the lines recommended by the Court, inter alia in the Court's opinion No 2/2004 ("single audit model") and continue with the identification of weaknesses in the design and the operation of schemes and to introduce appropriate remedial actions in the areas of centralised, shared and joint management. (§ 6, page 6)

#### Commission's response:

*The Commission is taking the recommended action.*

*In the light of experience, a number of actions under the action plan towards an integrated internal control framework have been refined to give further impetus towards increased assurance, concentrating on direct centralised management and including a detailed examination of the cost-benefit-risk balance for controls. The foundations will be in place by the end of 2007 for the Integrated Internal Control Framework to begin to have the planned impact on assurance.*

*Furthermore, the Commission's annual synthesis on management achievements identifies weaknesses in the design and the operation of control systems and introduces appropriate remedial actions and reports on their implementation.*

4. Improving the cost benefit ratio and promote simplification of regulations, programmes and guidelines, and build on existing control structures when addressing the weaknesses in the implementation of the supervisory and control systems. (§ 8, page 7, and paragraphs 2 and 3, page 12)

**Commission's response:**

*The Commission is taking the recommended actions.*

*Actions 10 and 11 of the action plan towards an integrated internal control framework aim at assessing the costs and the benefits of controls. For shared management a methodology for estimating the costs of control has been agreed and a survey launched for agriculture and structural funds. A new sub-action was launched with the objective to determine whether recovery and offsetting systems are working effectively, by identifying amounts recovered in 2005 and 2006 and their coherence with errors identified during controls. Furthermore, the Commission will, in direct management, develop a typology of error and the relationship with recoveries, financial corrections and adjustments to payments, while for shared management it will examine the reliability of national monitoring and reporting systems.*

*When the action plan towards an integrated internal control framework was adopted, a limited window of opportunity remained for further simplification of legislation for the 2007-13 planning period beyond the provisions already negotiated. While simplification has not been as extensive as hoped, some elements intended to reduce the numbers of beneficiaries inadvertently making erroneous claims were introduced in specific sectors. Commission services now have wider scope for using lump sum payments, reducing the risk of irregularity. Cost reporting models and the definition of eligible costs have also been simplified to reduce the risk of error. In the Structural Funds, accreditation of national systems together with Commission approval of Member States' audit strategies and simpler procedures to interrupt payments should deliver increased assurance. A new regulation consolidating and reinforcing controls and sanctions in the area of rural development was adopted by the Commission in December 2006. In indirect centralised management in education and culture corrective measures have been reinforced and Member States will be obliged to issue an ex ante declaration on national agencies' control systems.*

*While the next programming period is some way off, the Commission acknowledges that will be important to prepare the ground for further simplification by ensuring rules provide further support to sound internal control and calls on the legislative authority to give the necessary attention on the feasibility and cost-benefit of controls.*

## Chapter 1 - The Statement of Assurance (DAS) and supporting information

5. As regards the reliability of the accounts, take corrective measures [as identified by the Court]. (§ 1, page 8)

**Commission's response:**

*The Commission has corrected, where possible, for the errors that were highlighted by the Court during its 2005 audit. The Commission has also considered these errors and their causes while planning and performing its closure of the 2006 accounts, so as to try to avoid their recurrence.*

6. Present a general report on recoveries for the financial years 2000-2006, including amounts recovered by the Member States as well as the Commission and amounts of open entitlements by the end of each year. This report should be sent to the Council before the end of September 2007. (3rd paragraph, page 11)

**Commission's response:**

*The Commission will provide the Council with information on recoveries which will be presented in the first instance on the basis of extracts from the financial report of the EAGGF Guarantee Section and the annual report on implementation of the Structural funds, and the notes to the final accounts 2006 by October 2007.*



## Chapter 2 - Commission Internal Control

7. All stakeholders in the budgetary implementation process to continue their work to improve financial management so that reasonable and verifiable assurance can be given that controls are in place which work correctly and effectively. (4th paragraph, page 12)

**Commission's response:**

*In its action plan towards an integrated internal control framework and in the action plans included in Annual Activity Reports of the Directorates-General for 2006 to address identified weaknesses, the Commission has set out a range of measures which are being taken to improve control and assurance.*

8. Improve management reporting tools i.e. by further progressing in the implementation of the key elements of the internal controls and by increasing the effectiveness of the procedures and tools used. (4th paragraph, page 13)

**Commission's response:**

*The Commission is taking the recommended action.*

*The Commission is gradually implementing a better structured and homogeneous presentation of the internal control systems of the Directorates-General. A concise template to ensure a consistent presentation of control structures and sources of assurance was developed for the 2006 Annual Activity Reports. Over time the format is expected to improve awareness of control structures and sources of assurance and will help pinpoint weaknesses and define improvements. While an increased number of services presented indicators on legality and regularity in their 2006 Annual Activity Reports, continued efforts to develop such indicators will be needed while ensuring a coherent approach by family of services.*

9. Further improve the effectiveness of some internal control components in particular internal control standards related to risk analysis and management and supervision, as stated by the Court. (5th paragraph, page 13)

**Commission's response:**

*The Commission is taking the recommended action.*

*The structures created by the Financial Reform since 2000 have for the most part been implemented and the Commission-wide achievement of a very high level of compliance with the baseline requirements of the Internal Control Standards marked the beginning of a new phase which aims to improve the effectiveness of the Commission's internal control systems. Work started in 2006 to revise the Internal Control Standards to put more emphasis on measuring the effectiveness of internal control.*

### Chapter 3 - Budgetary Management

10. As regards the increase of outstanding commitments, in particular due to structural operations, the Council invites the Commission and the Member States to improve the implementation in this area. It also recalls that budgetary management requires a realistic and appropriate budget by taking into account the expected profile of payments and in particular the Member States' ability to absorb the funds. (1st - 3rd paragraphs, page 14)

**Commission's response:**

*The Commission has taken the recommended action.*

*The increase in outstanding commitments in 2005, in particular in the Structural Funds, for 2005 was not unexpected. This was mostly due to the large increase in commitments for the EU-10 countries (in line with the Copenhagen profile), while payments made to these programmes and projects were still relatively slow in their start-up phase. Payments for EU-15 programmes increased again in 2005.*

*Overall budgetary appropriations totalled €100.8 billion (an increase of 4.4% on 2004) with an implementation rate of 98%. As far as the Structural Funds are concerned, the implementation rate of payment appropriations was 99.8%, after a net reinforcement of €1.2 billion of the initial budget by means of an amending budget and the global transfer. Active budgetary management, combined with a realistic estimation of payment needs, ensured a virtual balance of available and required credits.*

11. Concerning the year n+2 rule, the Council takes note that, as in 2004, it has resulted in a limited number of decommitments, and invites the Commission to analyse in depth the operation of the year n+2 rule. (4th paragraph, page 14)

**Commission's response:**

*The Commission has taken the recommended action.*

*That the level of decommitments remains limited reflects the fact that the n+2 rule provides a powerful incentive for Member States to ensure that implementation proceeds at a sufficiently high rate. 2005 was the third year of n+2 decommitments for the EU-15 (the EU-10 will only be subject to the procedure at the end of 2006 for the first time).*

*In-depth analyses of the operation of the n+2 rule were provided in the DG Budget's documents "Report on budgetary and financial management" (March 2006) and "Analysis of the budgetary implementation of the Structural Funds in 2005" (May 2006). These analyses are updated every year.*

12. In order to improve the forecasting and budgeting of the 2007-2013 programming period, ensure that programmes are adopted quickly and based on reasonable assumptions, that payment forecasts are reviewed critically and adjusted when needed, and that annual budgeting over the life of the period is consistent with the rate of spending. (5th paragraph, page 14)

**Commission's response:**

*The Commission is taking the recommended action.*

*The Commission attaches high importance to the swift adoption of the programmes for the 2007-13 period and has put in place mechanisms to this effect. It reports regularly to the Council on this matter.*

*Forecasting and budgeting are monitored regularly throughout the year. The budget forecast alert tool established in 2006 contributes to this objective.*

## Chapter 4 - Revenue

13. As regards B-accounts, provide guidance on the current procedures with a view to the agreed Community objective to reduce excessive bureaucratic burden. (§ 1, 2nd paragraph, page 15)

**Commission's response:**

*The Commission is considering the feasibility of producing such guidance.*

14. Provide an assessment of the overall administrative costs for Member States and the Community of the management, administration and control of the traditional own resources system, with a view to reduce excessive bureaucratic burden. (§ 1, 2nd paragraph, page 15)

**Commission's response:**

*The Commission is considering which approach will most straightforwardly and cost-effectively provide the reliable and comparable data needed to make a meaningful assessment.*

15. As regards delays in investigations of mutual assistance cases, the Commission and OLAF to improve their coordination to streamline reporting and monitoring systems. (§ 1, 3rd paragraph, page 15)

**Commission's response:**

*As mentioned in the report of the European Court of Auditors, the evaluation of the handling of Mutual Assistance (MA) messages carried out by the Commission identified the need for a more modern procedure for facilitating the capture, transfer and analysis of information by the Member States and reducing the timeframe for reaction. This action aiming to migrate the current technical platform AFIS to a new technical platform accessible by using a web browser (AFIS New Generation) was considered as a pre-requisite for the deployment of a "New Mutual Assistance Communication system (e-MA)" and its components for the monitoring of the MA communications.*

*Unfortunately, the migration to the AFIS New Generation has been delayed. This is due to the fact that the contract of the main external supplier for software development had to be cancelled. It has not been possible to date to recruit an alternative external contractor for the next framework contract. In the circumstances, it has been agreed to reinforce the internal IT development team in order to take the project forward.*

*In the meantime, the internal IT development team has made significant progress and finalized already the model specifications of the Mutual Assistance Broker (MAB) which should be a major improvement aiming to integrate information related to different modules (AFIS mail, CIS, Marinfo, Yachtinfo, Ciginfo, EWS-C,...) through one single business interface. The next step should be the technical development of the business rules and the functionalities aiming to make the*

***Mutual Assistance Broker (MAB) accessible by using a web technology (AFIS New Generation) during the first Quarter of 2008.***

16. The Council takes note of the Court's general assessment of the risks with the collection of traditional own resources. It stresses in this context that the Commission is obliged to carefully differentiate cases where a Member State can be fully held accountable for foregone own resources' revenue from cases where the Member State has fully assumed its duties, but the collection nevertheless had not been possible due to factors for which the Member State cannot be held responsible. Particular care should be taken, when risks stem from the alleviation of bureaucratic burdens for enterprises and other liberalization measures in the context of the application of the customs code. Such risks should be assumed by the Community. (§ 1, 1st paragraph, page 16)

**Commission's response:**

***The Commission takes into account Member States' ability to act as well as their legal obligations when dealing with the relatively few cases where customs duties cannot be recovered. It is exploring whether Member States' uncertainties about their obligations in this context could be addressed by further prescribing the underlying conditions to be met by Member States when balancing protection of the Community's financial interest and trade facilitation.***

17. As regards the VAT resource, the Council is concerned about the increased number of reservations, and therefore it calls on the Commission, in co-operation with the Member States, to continue its efforts for ensuring that reservations are lifted within reasonable timescales. In this context, the Council also invites the Commission in co-operation with the Member States, to quantify, where possible, the impact of these reservations. (§ 2, 3rd paragraph, page 16)

**Commission's response:**

***The Commission has held a first discussion of these two matters with the Member States in the Advisory Committee on Own Resources and the examination of possible actions is continuing. It may be noted that although the total number of reservations may show a slight increase because of the first series of controls in EU-10 Member States, the general trend is downwards and the average number of reservations per Member State continues to fall.***

18. Provide a general analysis of the overall administration, management and control costs for the Community level and Member States of the VAT own resources system. (§ 2, 4th paragraph, page 16)

**Commission's response:**

***This matter is under consideration in the relevant Commission departments together with the similar recommendation Council as regards the traditional own resources system.***

19. Concerning the GNI resource, increase the verification of the data included in the annual GNI questionnaires. (§2, 5th paragraph, page 16)

**Commission's response:**

*The Commission will take the action recommended by the Court with respect to the monitoring of national accounts. In addition to its current verification procedures, the Commission will perform more direct verification of selected national aggregates in the sense indicated by the Court during the 2007-2009 round of GNI verification missions, which has started in 2007.*

20. Continue to encourage best practises through the GNI Committee regarding the quality of supervisory and control systems in respect of the National Accounts. (§ 2, 1st paragraph, page 17)

**Commission's response:**

*The Commission encourages best practices in national accounts compilation through the GNI Committee. The GNI Committee discussed this issue in July 2006 and agreed on ways forward.*

21. As regards the inclusion of allocated Financial Intermediation Services Indirectly Measured (FISIM) for own resources purposes, present a proposal as soon as possible in order to allow this adjustment to be implemented in a uniform manner across Member States. (§ 2, 2nd paragraph, page 17)

**Commission's response:**

*Concerning Financial Intermediation Services Indirectly Measured (FISIM), the Commission will present a proposal for including allocated FISIM in GNI for own resource purposes when it considers that all Member States are able to implement this adjustment in a uniform manner, which is expected to occur in 2008.*

## Chapter 5 - The Common Agricultural Policy

22. Ensure with the Member States that the Integrated Administrative Control System (IACS) is fully implemented in all EU 15 and that the weaknesses found in the EU 10 are remedied. (§ 1, 3rd paragraph, page 18)

**Commission's response:**

*The Commission is taking the recommended action.*

*The GIS (geographic information system) is the key element of the IACS and was functioning in all 10 New Member States in 2005. However, in some cases the level of detail of the GIS has not met the required standard. The Commission has already outlined ways for improving the system in the new Member States concerned and is carrying out audits on the remedial action by Member States.*

*The Commission will continue through its audits to monitor the full and correct application of the IACS-tool. In case of deficiencies, the Commission will not hesitate to impose financial corrections.*

*In 2007, three audit missions concerning three new Member States have been scheduled. Moreover, two desk audits are foreseen.*

*Furthermore, through regular contacts and bilateral meetings with Member States it will aim to improve further the control statistics.*

23. In the area aid sector, where 40% of the applications checked by the Court contained errors, improve checks and to further strengthen work in the area of risk management and risk assessment (§ 1, 4th paragraph, page 18)

**Commission's response:**

*The Commission is taking the recommended action.*

*The Commission follows up the reason for these errors. Members States with high errors have been asked for an explanation and remedial action where necessary. The share of area applications with errors checked in 2005 dropped significantly from 40% the previous year to 28,9%. Moreover, it is to be noted that the actual surface concerned by errors was 2.1% in 2004 (expenditure 2005) and that for 2005 (expenditure 2006) it is below 2%.*

24. Address the deficiencies identified by the Court in the olive oil Geographical Information System (GIS), in order to verify exactly the existence of the olive tree parcels. (§ 2, 5th paragraph, page 18)

**Commission's response:**

*The recommended action has been taken.*

*Regarding the olive oil sector, the Commission audits, undertaken as part of the clearance of accounts procedure since 2003, have established similar shortcomings to those identified by the Court (weaknesses in the olive Geographic Information System and in the control of the yields).*

*Member States have been informed about the deficiencies and the clearance of accounts procedures are currently ongoing.*

*The major part of the olive oil production has been integrated in the single payment scheme. Aid is thereby no longer paid on the basis of the quantity produced but is based on area. Consequently, the olive parcel is to be considered as a "classical" agricultural parcel which is controlled within the framework of the IACS. This should significantly reduce any risk of error.*

25. As regards rural development, correct all the weaknesses identified by the Court and speed up the clearance of accounts procedure concerning the temporary rural development instrument for some new Member States. (§ 3, 1st paragraph, page 19)

**Commission's response:**

*The recommended action has been taken.*

*- In order to improve the effectiveness of investment measures in the new programming period 2007-2013, the Commission has included a more strategic approach through the Community Strategic Guidelines allowing Member States to better focus their Rural Development strategies on specific objectives and needs.*

*- Member States need to secure appropriate funding for the convergence regions. Specific minimum amounts have been fixed for these most in need regions in the Decision of the Commission allocating the appropriations for the period 2007 – 2013.*

*- Member States are obliged to ensure that the measures proposed in the Rural Development programmes are verifiable and can consult guidelines provided by the Commission.*

*- Member States need to allocate a minimum percentage of their national envelope for each of the core objectives (competitiveness, environment, rural economy) ensuring balanced programmes which take into account both sectoral and territorial concerns. Additionally, Member States programmes must inform on the designation and importance of their rural areas.*

*- For the period 2007-2013, National Rural Development networks will be set up by the Member States, which will exchange best practices across the regions and discuss similar problems encountered in the implementation of the programmes. At Community level, the Commission will establish a European Network for Rural*



*Development as from 2008 onwards, to facilitate, organise and as a source of expertise and best practice for the rural development policy at European level.*

*- The Commission has further strengthened its monitoring and evaluation systems by introducing a Common Monitoring and Evaluation Framework, elaborated in close collaboration with the Member States.*

*As regards speeding up the clearance of accounts procedure of the temporary rural development instrument for new Member States, the relevant clearance of accounts decisions for the financial years 2005 and 2006 have been adopted by 30th April of the following year, within the legal deadlines.*

*Implementation of these programmes is well advanced in most new Member States. At the end of May 2007 86,9% of the total Community contribution for the period 2004-2006 had already been paid, and two Member States, Slovenia and the Czech Republic had reached the ceiling of 95% of the total financial plan, which impedes further interim payments by the Commission.*

*The Commission services are presenting a working document to the next Agricultural Funds Committee inviting new Member States to end up the implementation of these programmes by 16th October 2007 in order to proceed with the final closure of the programme following the 2007 clearance of accounts decision in May 2008.*

26. As regards certifying bodies and conformity clearance, monitor the functioning of the new instruments under Regulation (EC) No. 1290/2005 and the related implementing rules (§ 5, 3rd paragraph, page 19)

**Commission's response:**

*The recommended action has been taken.*

*The new instruments concern the completion of debtors' information in accordance with Annex III of Commission Regulation (EC) No 885/2006, the Statement of Assurance by the Paying Agency Director, and the Certifying Body's opinion on the Statement.*

*In the new guidelines, applicable as from the financial year 2007, drawn up for the certifying bodies for the financial clearance, a specific section is devoted to the verification and validation of inspection statistics and post-payment checks.*

## Chapter 6 - Structural Operations

27. The Commission and the Member States should do their utmost to streamline the bureaucracy and the requirements at all level; pursue their efforts and take all the necessary steps to mitigate the risks related to the legality and regularity of expenditure through both strong and adequate controls and effective supervision, while constantly bearing in mind that such controls have to be proportionate to the risks and costs involved; reinforce their co-operation to ensure the effective application of the control mechanisms, in particular for the 2007-2013 period, in compliance with the new legislative framework adopted. (Paragraphs 2, 3 and 5, page 20)

**Commission's response:**

*The Commission is taking the recommended action. For the 2007-13 Financial Perspective period a number of changes should reduce the administrative burden associated with structural expenditure. Member States will mainly determine eligibility conditions, and for smaller programmes with a greater percentage of national funding they will be able to apply national rather than EU requirements and procedures in some instances. At the same time, the control framework and the Commission's ability to supervise its operation will be strengthened by new elements such as an ex ante compliance assessment on national systems to be delivered by the Member State before interim payments start and an annual audit opinion delivered by the audit authority. The Commission endorses the principle of controls being proportionate to the risks and costs involved. Therefore, as part of the Action Plan towards an Integrated Internal Control Framework (COM(2006) 9 and COM (2007) 86), it is assessing the cost of controls in Structural Funds through a survey. The Commission is also asking Member States to provide regular information on the error rates they find in their audit work, which are an indicator of the risk. The data obtained will help clarify the relationship between the costs and benefits of controls and achieve a better balance. The cooperation between the Commission and Member States is continuing to be developed in the areas of reporting, sharing of audit results and harmonization of audit standards. This long-standing development has been given further impetus by the Action Plan and the legislation for the 2007-13 period.*

28. Keep on providing updated, timely and comprehensive guidance and clarification on the rules and procedures applicable to the different programmes and projects, whether it be for the closure of the 2000-2006 programmes or for the launching of the 2007-2013 operations. (Paragraph 4, page 20)

**Commission's response:**

*The Commission is taking the recommended action. It issued guidance on the closure of 2000-06 Structural Fund programmes in 2006 (C(2006) 3424) and will shortly do so for the closure of Cohesion Fund projects of the same period. Examples of guidance being issued for the launching of 2007-13 operations are working papers on the ex ante compliance assessment, the audit strategy, the ex ante evaluation, financial engineering and cost-benefit analysis. The Commission*

*is answering a large number of questions from Member States on the application of the new rules and procedures.*

29. As regards the 2000-2006 Structural Funds Programmes, improve the performance of control tools such as audit trail requirements, day-to-day management checks, interim certification and independent sample checks, by expanding the dissemination of good practice and by making checks not only on the basis of the documentation available but also where appropriate at the premises of the beneficiaries. (§1, 3rd paragraph, page 21)

**Commission's response:**

*The Commission is taking the recommended action. It issued documents in 2006 setting out good practice in management verifications and checks by the paying authority before certifying expenditure. In its audit work the Commission audits the functioning of all the main system elements including day-to-day management checks, the certification function, the audit trail and national audit work. It makes recommendations for improvements whenever deficiencies are found and where necessary agrees large-scale action plans with the Member State and monitors their implementation. By the end of 2006 the departments of the Commission responsible had audited systems representing well over half of the Structural and Cohesion Fund allocations for the 2000-06 period both in EU15 and EU10. The audits include substantive testing on individual projects to ascertain how effective systems are in preventing and correcting errors. This takes place on the premises of beneficiaries. The Commission also monitors the audit work of national authorities through annual control reports and systems audit reports, which are discussed at annual bilateral coordination meetings with Member States.*

30. As regards the 1994-1999 Structural Funds Programmes, speed up the closure process, avoid diverting too many resources at the expense of the 2000-2006 programmes and ensure that lessons from the closing of programmes for the 1994 to 1999 period are applied for the 2000 to 2006 and subsequent periods. (§ 2, 4th and 5th paragraphs, page 21)

**Commission's response:**

*The Commission is taking the recommended action. At the end of 2006 the amount of outstanding commitments on 1994-1999 programmes was down to under 0.6% (€917 million) of the original budget allocated to these programmes. The programmes on which commitments are still open are those in which financial corrections proposed by the Commission are contested and which are being closed by formal Commission decision, or which are subject to legal proceedings in the Member States. The Commission has already issued guidance on the closure of 2000-06 programmes.*

31. As regards the procedures in the Structural Funds for reporting recoveries and making financial corrections, update constantly the information and guidance to be provided to the Member States and carry on effective audit work to improve the systems and to provide timely follow up to ensure that recommendations are implemented. (§ 3, 2nd paragraph, page 22)

**Commission's response:**

*The Commission is taking the recommended action. In 2006 the Commission took steps to improve information on recoveries and financial corrections reported by Member States. It first clarified the requirements by issuing a guidance note on the information on recoveries to be provided by Member States with payment claims and amending Regulation 448/2001 on financial corrections to clarify the information Member States should provide to the Commission on withdrawals (Regulation 1978/2006).*

*In early 2007 it asked all Member States to supply complete information on recoveries, withdrawals and pending recoveries for 2006 and cumulatively for the whole period 2000-06. The Commission is receiving the information and intends to summarise it in a report to be presented in the autumn of 2007. Recovery procedures are a regular subject of system audits. Recommendations to improve the systems are made whenever deficiencies are found.*

## Chapter 7 - Internal Policies, including Research

32. Take appropriate measures to remedy the weaknesses identified by the Court, in particular those concerning the double charging of costs, the lack of supporting evidence for working time charged, the unjustified allocation of indirect costs to the action, the non-compliance with eligibility criteria. (§ 1, 2nd paragraph, page 23)

### Commission's response:

*The Commission fully shares the concerns expressed by the Council on the weaknesses identified by the Court and recalls that these problems largely stem from the complexity of the applicable regulatory framework, which remained for the most part unchanged from previous years.*

*The Commission has taken further steps to address the issues reported by the Court, namely on the audit certificate system, reinforcement of the ex-post audit functions (increase of staff dedicated to audit and audit related functions, structural reinforcement through the creation of new external audit units), the adoption of a common audit policy, which aims to clear a significant part of the budget from errors, and simplification.*

*In particular, the Commission has implemented measures to reinforce the effectiveness of the audit certificate system.*

*Firstly, the Commission is improving support to certifying entities, beneficiaries and operational services within the Commission. Secondly, for the Seventh Framework Programme, it has introduced two further measures: (1) "agreed upon procedures" which consist of a compulsory set of procedures to be used by certifying auditors; and (2) optional certification for beneficiaries with multiple participations of the cost calculation methodology, i.e. approving a company's own accounting practices.*

*These measures are expected to ensure, before payments are authorised, that beneficiaries' costing methodologies comply with the contractual provisions.*

*Clear requirements for time recording have been established in different formats in the successive Framework Programmes. For FP7, the terms of reference annexed to the Grant agreement describe the procedures to be performed by the auditors in the frame of the certification of Cost statement and the certification on methodology (including the methodology on average personnel costs).*

*Concerning the simplification of the rules for the reimbursement of costs, the FP7 rules for participation and the model grant agreement under the Seventh Framework Programme adopted on 10 April 2007 are already an important simplification compared with previous Framework Programmes. Further steps have been taken. In particular, on 4 June 2007, the Commission decided on the use of lump sums for International Cooperation Partner Countries within grant agreements for indirect actions, concluded under the Seventh Framework Programme of the European Community (Document reference C/2007/2287).*

*Rules on verification of existence, legal status, operational and financial capacity have been adopted on 13 June 2007 (Document reference C/2007/2466)*

*Furthermore, in order to address the problems inherent to the complexity of the contractual provisions and lack of clarity, the Commission has implemented an alternative approach to obtaining reasonable assurance.*

*The errors resulting from these problems can only be detected by means of detailed, on the spot audits. To address this, the Commission has developed a strategy aimed to ensure the accuracy of a sizeable proportion of the expenditure (between 40 and 50%) and to check compliance on the rest on a multiannual basis. It is implemented through an increase in the number of ex post audits and a new sampling strategy. For the Sixth Framework programme, the contracts audited will include: (1) the 200 contractors representing the largest share of the budget; (2) a representative, value-based random sample from the remaining population; and (3) a risk-based sample focusing on potentially riskier contractors.*

33. Consider carefully the legal form of Joint Undertakings, so as to enable them to benefit from consistent funding schemes and to permit a fair recognition of their nature and associated risks. (§ 1, 3rd paragraph, page 23)

**Commission's response:**

*Concerning the Galileo Joint Undertaking, the legal form has been modified in December 2006 (Council Regulation 1942 of 12/12/2006).*

34. Develop a clear strategy on the coordination of key control procedures, as well as to enforce more reliable action plans designed to exclude over declaration of costs, and in particular, increase the number of on-the-spot audits, develop a harmonised methodology for reporting and selection of ex post audits and implement a common IT system for the Seventh and subsequent Framework Programmes. (§ 2, 4th paragraph, page 23)

**Commission's response:**

*The Commission concurs with the Council on the need to develop a clear strategy on the coordination of key control procedures. In its Communication to the European Parliament, the Council and the European Court of Auditors "Synthesis of the Commission's management achievements in 2006" of 30 May 2007 (COM(2007) 274) the Commission concluded that a comprehensive view of internal control activities should be developed for each activity, integrating the different elements and levels of control.*

*The Commission will closely monitor the implementation of comprehensive control strategies and methodologies and will ensure coherent ex-post approaches by service families, so that: (1) control strategies are formalised and contain precise objectives; (2) there is clear monitoring and reporting bringing together the results of controls at all levels; (3) the responsibilities of actors, including synergies across services, are clarified and applied.*

*The Commission will ensure that all delegated authorising officers fully meet the requirement to use the template, thereby establishing a clearer link between control systems and assurance in their 2007 Annual Activity Reports, and to introduce, as envisaged, indicators for the legality and regularity of transactions to support assurance.*

*As regards the specific issues raised by the Council, they are specifically addressed in the action plan defined for ex-post controls for the research family.*

*The key elements of this action plan are the reinforcement of the ex-post audit functions (increase of staff dedicated to audit and audit related functions in the order of 50 additional posts, structural reinforcement through the creation of new external audit units), the adoption of a common audit policy which aims to clear a significant part of the budget from errors and an intensified collaboration across research DGs in order to take advantage of existing synergies. In line with this the number of ex-post audits will be significantly increased concerning the period 2007-2010 compared to the levels of previous years. The increase of audits in combination with reinforced implementation procedures of audit results will lead to a substantial increase in audit coverage in FP6 compared with previous periods.*

*Concerning the establishment of a common or integrated IT system for the management of the Seventh Framework Programme, The Commission is addressing data quality issues detected on the contract database for the Sixth Framework Programme and the system is being adapted to support the new programme requirements. For the Seventh Framework Programme, a new governance structure has been put in place, a Programme Steering Committee common to all the Research Directorate Generals is supervising the "front office application" i.e. those applications used by beneficiaries. In addition, the data quality is regularly monitored.*

35. As regards audit certification system for the Sixth Framework Programme (FP6), simplify and clarify the rules governing the eligibility criteria and the independence of certifying auditors, in order to reduce uncertainty among beneficiaries and auditors about which rules apply. (§ 3, 1st paragraph, page 24)

**Commission's response:**

*The Commission accepts this recommendation. The guidance documents made available at the onset of the Sixth Framework Programme have appeared not to be entirely sufficient and proved in particular to be insufficient to meet the needs of the beneficiaries and the certifying auditors regarding the requirements on qualification and their independence. In consequence, the use of audit certificates has not provided the expected for reduction of errors. To resolve this problem, the Commission services have produced an updated Audit Certificate Handbook to assist project and financial officers to assess whether an audit certificate is acceptable or not. A similar document for external use by research contractors and certifying auditors has been published on the Cordis website. In addition, DG INFSO created a task force aimed at ensuring a common and consistent approach regarding the handling of audit certificates by Commission services (audit clinics). Commission services have also participated in workshops and trainings with certifying auditors to provide support.*

36. Reinstate the number of ex-post audits at the level of 2004, especially in the research area (FP6), and reinforce its audit activities for FP5, without affecting the number of audits on FP6. (§ 4, 2nd paragraph, page 24)

**Commission's response:**

*The Commission Directorates-General in charge of the management of Research funds have adopted a new audit strategy which aims to ensure the accuracy of a sizeable proportion of the expenditure (between 40 and 50%) and to check compliance on the rest on a multiannual basis. It is implemented through an increase in the number of ex post audits and a new sampling strategy. For the Sixth Framework programme, the contracts audited will include: (1) the 200 contractors representing the largest share of the budget; (2) a representative, value-based random sample from the remaining population; and (3) a risk-based sample focusing on potentially riskier contractors.*

*It should be noted that the year 2005 was atypical regarding the numbers of ex post audits closed. Due to performance problems of the external audit firm the audit plan could not be implemented as intended. As a consequence the closure of a significant number of audits was postponed from 2005 into 2006 and 2007. The performance problems have been resolved in the meantime. As a consequence the number of audits closed in 2006 and 2007 will be significantly above the levels of 2004. The intended reinforcement of the ex post audits functions and the implementation of the common audit strategy for the Sixth Framework programme will result in a further increase in audits.*

37. In the field of education, culture and enterprise, promptly remedy all the weaknesses identified by the Court in the follow-up of ex-posts audits. (§ 4, 3rd paragraph, page 24)

**Commission's response:**

*The Commission is taking the recommended action. In particular, DG EAC is reviewing its audit policy and aims to establish, in strict coordination with the Executive Agency, a revised approach for ex-post audits by the end of 2007. It will cover all steps of the audit process including the methodology for identification of files to be audited, the terms of reference defining the audit task, as well as the procedures in relation to the internal treatment of audit reports and follow-up to audits.*

*DG ENTR creates revenue forecasts for all ex-post audit results that indicate that a correction in favour of the Commission could be necessary. This procedure ensures that the final decision about the follow-up of ex-post audit results follows a normal workflow for financial transactions including ex-ante control. Follow-up of ex-post audit results is monitored by the ex-post control function with a dedicated data-base and by the DG ENTR hierarchy as part of the management scoreboard.*

38. Improve the scope, quality and follow-up of the systems audits of National Agencies in the field of education and culture. (§ 5, 4th paragraph, page 24)



**Commission's response:**

*The Commission is taking the recommended action. Significant improvements are being implemented as regards the supervision of National Agencies. The decisions establishing the new Lifelong Learning and Youth in Action programmes foresee ex-ante declarations of assurance issued by the National Authorities. The declarations enable the Commission to get assurance from the national authority that minimum requirements set out in legal bases and developed in the Guide for the National Agencies have been fulfilled. They also allow an early detection of possible problems as well as swift implementation of remedial actions. Particular attention is given to the follow up of recommendations resulting from previous system audits. In addition, the National Authorities will issue declarations of assurance on an annual basis covering the actual functioning of systems and procedures, the sound use of resources as well as the correctness of the financial statements and the legality and regularity of the underlying transactions.*

## Chapter 8 - External Actions

39. Continue to improve the functioning in practise of internal audits and management reporting of the supervisory and control systems of delegations and EuropeAid. (§ 1, 1st-4th paragraph, page 25)

**Commission's response:**

*The internal audit activity in EuropeAid has increased considerably since 2005. Today, its risk-based audit programme (co-ordinated with that of the IAS) is much better geared towards looking at the most significant risks in the systems in AIDCO and the Delegation network. Reinforcement of the Internal Audit Capability's staffing has enabled it to achieve greater audit coverage.*

*Management reporting of the supervisory and control system is ensured by the EuropeAid's management information structure whereby the Delegations have to report to the relevant EuropeAid Directorate via the External Assistance Management Reports (EAMRs) and each Director to the Director General via the Sub-delegated Authorising Officer (SDAO) reports. The Director General gives a detailed account on the state and monitoring of EuropeAid's supervisory and control systems in the Annual Activity Reports. Dates have been aligned so that the reports from Delegations may feed into corresponding Headquarters reports.*

*The 2006 and 2007 updates of the EAMRs and the SDAO reports ensure that information on internal control issues and on the state of any remedial measures is conveyed at the appropriate level and regularly followed up*

40. Further develop EuropeAid's risk assessment by making reference to the findings of auditors at project level, and by making a separation between the different types of implementing organisations and the funding method. (§ 1, 1st paragraph, page 26)

**Commission's response:**

*The criteria mentioned by the Court are already taken into account by EuropeAid in its approach to risk management. The Commission will endeavour to further reinforce the current mechanism and better communicate the basis for its analysis.*

41. Improve the terms of reference of EuropeAid's external audits to cover all known risk areas including the verification of the compliance with the Commission's requirements regarding contracting procedures and the eligibility of expenditures. (§ 1, 1st paragraph, page 26)

**Commission's response:**

*In 2005, EuropeAid developed standard Terms of Reference and reporting model for external auditors to perform expenditure verifications to be submitted by the beneficiaries of Community funds prior to final payments, for grant and fee-based service contracts. In 2006, these Terms of Reference were revised so as to reinforce the verification of compliance with the contract terms including those relating to procurement and eligibility, which the Court considers as one of the main risk areas.*

42. Include information on all audits of projects in the Common Relex Information System (CRIS) and better link this information to the project management information. (§ 1, 1st paragraph, page 26)

**Commission's response:**

*Information on audits is ensured through the current planning and monitoring system, which includes regular reports from Delegations. The External Assistance Management Reports of the Delegations were reviewed to further exploit the information from Delegations, including those parts relating to audit results. Based on experience and feedback from Delegations, these reports will be further updated for the 2007 exercise.*

*It is worth stressing that CRIS-Audit is a complementary tool and improvements of this IT module will follow the completion of work on the accrual accounting functionalities. One of the aims is to facilitate the exploitation of audit results at both Headquarters and Delegations through a simplification and rationalisation of CRIS-Audit.*

43. EuropeAid headquarters to review the financial information provided by the delegations, supported through headquarters' audits, in order to ensure its completeness and consistency. (§ 1, 1st paragraph, page 26)

**Commission's response:**

*External assistance management reports (EAMR) from Delegations have been updated for the second consecutive year in order to improve the range of financial/budgetary data submitted in the reports to Headquarters. Headquarters carefully analyse the EAMRs and draw on them to prepare Director's reports to the Director General. The Directors must report on financial indicators as well as on key issues including financial issues stemming from the EAMRs of the Delegations within their remit. This follow-up work is complemented by work on accrual accounting and financial forecast as well as monitoring missions of Headquarters to Delegations.*

44. Continue efforts to improve the access of the Court to the documentation relating to projects managed by UN agencies and to develop clear guidelines and procedures within the Financial and Administrative Framework Agreement (FAFA) setting out the framework for managing the financial contributions made by the Commission to the UN. (§ 2, 2nd paragraph, page 26)

**Commission's response:**

*At its meeting in Brussels on 16 April 2007, the working group to review the implementation of the FAFA decided to pursue various measures to improve the operation of the verification system, under which the Court of Auditors has access to UN documentation.*

45. As regards Special Report No. 25/98 concerning activities undertaken by the European Union in the field of nuclear safety in Central and Eastern Europe (CEEC) and in the New Independent States (NIS) from 1990-1997, strengthen the implementation of the strategy, in particular by developing the impact assessment of the TACIS Nuclear Safety Program (NSP) at the level of nuclear power plants and by strengthening efforts to be able to identify and implement projects in the area of the transfer of a safety culture to the NIS, in particular relating to the treatment of radioactive waste, including better dissemination of the project's results. (§ 3, 3<sup>rd</sup> paragraph, page 26)

**Commission's response:**

*In the implementation of the new Instrument for Nuclear Safety Cooperation (2007-2013) each funded project will be evaluated through a number of adequate management and impact assessment indicators (Key Performance Indicators). These indicators will be applied for all kind of projects (improvement of the power plants, nuclear wastes,). They will be discussed with the beneficiaries and end-users for facilitating the evaluation of the impact and the ownership of the implementation. To improve efficiency of Commission's investments, projects will be implemented in several Nuclear Power Plants (NPP). This multi NPP approach has the objective to reinforce the dissemination of the results and increase the transfer of safety culture. Studies to evaluate the improvement of the safety of the VVER type of reactors in Ukraine and Russia will be launched in collaboration with Regulatory Authorities of Ukraine and Russia under the leadership of the IAEA.*

46. As regards Special Report No. 25/98 concerning activities undertaken by the European Union in the field of nuclear safety in Central and Eastern Europe (CEEC) and in the New Independent States (NIS) from 1990-1997, improve the management of the TACIS programme by increasing the involvement of the Commission's delegations, resources and the conditionality of the funding, by focusing on the improvement of the whole process of procurement and by applying best practices, e.g. co-financing. (§ 3, 1<sup>st</sup> paragraph, page 27)

**Commission's response:**

*Special efforts will be given to the optimisation of the available resources both at the Delegation and Central Headquarters level. In accordance with the new instrument, co-financed projects will have priority.*

## Chapter 9 - Pre-accession Strategy

47. As regards the Phare programme, clarify the issue of the eligibility of VAT expenditure under parallel co-financing in the relevant implementing rules. (§ 1, 1<sup>st</sup> paragraph, page 28)

**Commission's response:**

*The Commission is taking action to avoid this interpretation problem in the future. Currently, under Phare, it is considered that the treatment of VAT as eligible expenditure under national parallel co-financing is consistent with the regulation, since the Commission considers that it sets out rules applicable to Commission financing only.*

*For the future, under IPA, rules applicable to community funds will also be applicable to national funds given as national co-financing. This will address the criticism from the Court of Auditors and clarify the issue. VAT will only be eligible if it cannot be recovered by the final beneficiaries in any other way. This will be clearly indicated in the relevant project documents, among which the project fiche.*

48. As regards Sapard, the Commission and the countries concerned to take due account of the errors identified by the Court. (§ 1, 2<sup>nd</sup> paragraph, page 28)

**Commission's response:**

*The recommended action has been taken.*

*The Commission has taken into account the errors found in Bulgaria and Romania. However, the Commission maintains its position that, with the possible exception of public tendering in Romania, the Court has not, in the Commission's view, identified significant errors, neither in respect of 2005 nor previous years.*

49. As regards the Phare and Turkey programmes and ISPA projects, continue ensuring the effective performance of Delegations' ex-ante controls while at the same time monitoring closely the effective functioning of national supervisory and control systems. (§ 2, 3<sup>rd</sup> paragraph, page 28)

**Commission's response:**

*The Commission is taking the recommended action.*

*Delegation ex-ante controls will remain an effective key control for the Turkey programmes and hence further be enforced.*

*For the Phare programmes, which are now largely completed and where all beneficiaries are now Member States, the ex ante controls have been waived and the beneficiaries now operate under the extended decentralised implementation system. However, the monitoring of the national supervisory and control systems subsists.*

50. As regards Phare, take action to remedy the issue of late submissions of final declarations by the national authorities. (§ 2, 1st paragraph, page 29)

**Commission's response:**

*The recommended action has been taken.*

*The Commission issues regular written reminders for the need to submit final declarations in a timely manner. Where necessary, the issue has also been raised increasingly in Joint Monitoring Committees. As a result of these efforts, most of the delayed final declarations have been received and dealt with.*

*It is scheduled to complete the action by the end of this year.*

51. As regards Sapard, the Commission and the national authorities to pursue efforts towards removing the remaining weaknesses of the supervisory and control systems. (§ 2, 2nd paragraph, page 29)

**Commission's response:**

*The recommended action has been taken .*

*The Commission continues its efforts for closely monitoring and advising the national authorities to further improve the quality of supervisory and control systems.*

*At this stage of the SAPARD programmes, the monitoring is carried out on the basis of conformity audits and the conformity clearance is efficient in its approach to audit Member States' management and control systems and, in case of deficiencies, applying financial corrections.*

52. The Council regrets further delays in the Extended Decentralised Information System (EDIS) accreditation process for Phare and ISPA, in particular because EDIS proved to be a major step towards improving management capacity and control systems in new Member States (§ 2, 3rd paragraph, page 29)

**Commission's response:**

*The Commission is taking the recommended action.*

*The Commission agrees with the remark expressing regrets about delays in the EDIS accreditation. However, delays in the accreditation could not be avoided in certain countries where management and control structures were not adequate to grant accreditation. To ensure the sound financial management of EC funds under EDIS, the Commission had to insist in these cases on further improvements of the administrative structures before granting EDIS. The Commission stresses that the cause of delays was on matters under the control of the Beneficiary country - either in preparing for its application or in dealing with issues arising from the Commission's assessment of the application. On these matters the Commission can only give guidance and apply pressure - which it has done consistently and forcefully throughout the process.*

## Chapter 10 - Administrative expenditure

53. As regards NAP (New Payroll System), all the Institutions should use systematically the reporting facilities in order to verify, before the final pay run, all the data concerning situations specific to individual members of staff, and carry out regular ex-post controls to increase the reliability of the administrative procedures for managing staff remunerations and help to discover possible weaknesses and errors in the system. (§ 1, 4th and 5th paragraphs, page 30)

**Commission's response:**

*In each institution, each authorising officer by delegation puts in place the control procedures adapted to its specific situation. The PMO has put in place a central helpdesk for institutions' users (PMO NAP SUPPORT). All reports are available, upon request, to every authorising officer. With respect of the autonomy of the institutions it is up to the authorising officers to define their own set of controls. In 2006 the PMO NAP SUPPORT brought at the disposal of all NAP users a new exhaustive documentation on the NAP application suggesting controls to be carried out ex-ante and ex-post. The PMO runs its own controls including some ex-post controls and in the light of the experience of the past years it considers its current controls as sufficient and does not envisage, at this stage, strengthening its ex-post controls. In the meantime the PMO is developing a new IT system (IRIS) for the management of individual rights that will be put in production on November 2007. IRIS will include a whole set of automatic ex-ante controls. The issue of controls will be looked into again once the new IT application is made available to users.*

54. The Institutions should harmonise their way of implementing the provision concerning the reimbursement of the accommodation costs incurred on mission in compliance with the Staff Regulation. (§ 1, 1st paragraph, page 31)

**Commission's response:**

*The Guide to missions – the internal rules adopted by the Commission governing missions of its staff – is currently under review to take due account of the remark of the Court. Adoption of the new rules is scheduled for the beginning of 2008.*

55. For better clarity and transparency, provide together with the Preliminary Draft Budget a budgetary overview covering all decentralised Agencies audited by the Court. (§ 2, 2nd paragraph, page 31)

**Commission's response:**

*The Commission has taken the recommended action.*

*For the first time with its PDB 2008, the Commission presented an overview document of agencies (PDB 2008: Working documents Part IV Bodies set up by the Communities and having legal personality COM(2007) 300).*

56. While respecting the autonomy of the Agencies, the Council invites the Commission to help them in complying with the compulsory legislation notably as to recruitment, public procurement procedures, budgetary rules, internal control and audit structures, and encourages the Commission's internal auditor to intensify his efforts to ensure that the Agencies' control systems are improved in an efficient way, bearing in mind the principle of proportionality. (§ 2, 3rd paragraph, page 31, and 2nd paragraph, page 32)

**Commission's response:**

*Despite a lack of resources allocated in the budget to do so, the Commission - which fully respects the independence of the agencies - helps agencies upon their request in complying with the compulsory legislation in a number of fields and its internal auditor collaborates with the Agencies' control systems in order to improve them in an efficient way. Thus, where the agencies request it, the Commission provides assistance and support to help them to understand and interpret the rules. The Commission has provided and will continue to provide extensive guidance to the Agencies on accounting issues through general and bilateral meetings, manuals and a free-of-charge helpdesk function for the agencies' questions. The Commission's Central Financial Service Helpdesk, which answers questions on the correct application of the financial rules for the EU saw the number of questions posed to it by Agencies increased significantly. In the first quarter of 2007, 20% of the questions received by the helpdesk of DG BUDG were from Agencies, compared with less than 5% in 2004. In addition, BudgWeb, the Commission's internal financial website is accessible to all Agencies. Staff of Agencies may participate in any financial training offered to Commission staff, and significant number does so. Furthermore, the CFS provides dedicated training on financial management (Expenditure Lifecycle, Procurement, Grants) for the Agencies upon request. Specifically in the area of procurement, the Commission publishes guidelines on BudgWeb, provides the Agencies with access to its helpdesk and has provided training to the "Inter Agency Legal Network" (IALN).*

*On the IT side, the Commission has offered its new accounting system (ABAC) to the Agencies. On 1.1.2007, 6 Agencies were already using the ABAC system and several agencies will join the system within the next 2 years. This IT integration project is a major investment old resources on the Commission' side and shows its willingness to support Agencies. All necessary support as regards the organisation and implementation of IT training will be offered by the CFS to agencies that have chosen to use BAC. More generally, there exist Service Level Agreements (SLA) which have been drawn up with many regulatory Agencies in 2006 in different areas of administration (PMO, training). For example, within the framework of the existing SLAs, prior to the implementation of ABAC, a training is being provided on ABAC and other IT tools.*

*On recruitment, in December 2005 the Commission adopted Guidelines on Staff Policy in Regulatory Agencies, which recommend a standardisation of agencies' selection procedures through a greater involvement of EPSO. Moreover, as Agencies have to adopt their implementing rules in agreement with the Commission pursuant to Article 110 of the Staff Regulations, these Guidelines encourage the adoption of rules designed to implement the Staff Regulations in line with the Commission implementing rules with limited changes justified by the*



*specific characteristics of Agency staff. Agencies are independent Community bodies, therefore it lays in their responsibility to submit their implementing rules to the Commission for its agreement. Nevertheless, the Commission has in cooperation with the Agencies elaborated models of implementing rules (also on the engagement and use of temporary agents and on contract agents) aiming to obtain a common core of principles and rules and a consistent application of the Staff Regulations to ensure equal treatment of staff subject to the Staff Regulations. Most Agencies have announced that the adoption of their missing implementing rules will be treated as a matter of priority.*

*In May 2007, a SLA between EPSO and certain Agencies were signed which provides the basis for the involvement of EPSO in Agencies' selection procedures (e.g. publication of vacancy notices, providing standard tests, providing access to the reserve list of successful tested candidates (CARL), etc.).*

*In 2005, a Helpdesk for Agencies was established in DG ADMIN which answers to Agencies' questions on the general interpretation and application of the Staff Regulations and assists by questions concerning individual cases.*

*The IAS provides the agencies with risk management and control assessment coupled with detailed audit recommendations. In the course of 2007, the IAS will also establish a network of Agencies' IACs to exchange information, provide guidance, disseminate best practices and increase professionalism of the internal audit function in the Agencies. The legal Service of the Commission already provides help to the Agencies via the Directorate General responsible for the contact with the specific Agency.*

57. Apply a thorough cost benefit assessment before setting up new Agencies and to implement the review clauses foreseen in their specific regulation. (§ 2, 3rd paragraph, page 31)

**Commission's response:**

*La Commission se réfère à l'article 47 de l'Accord Interinstitutionnel entre le Parlement européen, le Conseil et la Commission sur la discipline budgétaire et la bonne gestion financière ((2006/C 139/01) et à la récente déclaration interinstitutionnelle du 20/04/2007 ("agreement on Community agencies"), indiquant qu'elle procèdera à une évaluation coût-bénéfice pour toute proposition de création d'une nouvelle agence exécutive et une évaluation préalable d'impact (impact assessment) pour chaque nouvelle proposition de création d'une agence de régulation.*

58. Provide a comprehensive report to the budgetary authority which should also comprise a summary of the Commission's internal auditors report on the Agencies and allow for a general assessment as to whether the existing strategy on decentralised Agencies should be pursued. (§ 2, 3rd paragraph)

**Commission's response:**

*La Commission s'est déjà engagée à produire une méta-évaluation de l'ensemble des agences de régulation communautaires, méta-évaluation dite "raison d'être" (du système général des agences de régulation).*

*Par ailleurs, l'article 72§5 du Règlement Financier cadre N° 2343/2002 du 23.12.2002 prévoit la communication annuelle par le Directeur de chaque Agence d'un rapport destiné à l'autorité budgétaire et résumant le nombre et le type des audits internes effectués par l'auditeur interne, les recommandations formulées et les suites données à ces recommandations.*

59. When disbursing funds to Agencies, comply with the rule that fund transfers are to be based on regular and justified estimates of the Agencies' cash requirements (§ 2, 1st paragraph, page 32)

**Commission's response:**

*Payments of the subsidy are made upon payment requests by the respective agencies. When making payments, the authorising officer by delegation of the competent Directorate-General has to take into account on the financial planning of the agency.*

*The Commission services are currently studying the opportunity to introduce provisions in the Commission Regulation (EC, Euratom) N° 2343/2002 of 23 December 2002 on the framework Financial Regulation for the bodies referred to in article 185 of the general Financial Regulation in order to enable the Commission to take into account the real needs of the agency throughout the year.*

*This should lead to a more rigorous planning by the agency and increase transparency.*

60. The Council regrets the fact that several Agencies have not assessed their operational risks and encourages the Commission to give guidance to the Agencies how best to tackle these inherent risks. (§ 2, 2nd paragraph, page 32)

**Commission's response:**

*La Commission fournit régulièrement des orientations détaillées concernant les règles que les agences doivent respecter. La Commission fournit, par ailleurs, l'aide et l'appui nécessaires à la compréhension et à l'interprétation de ces règles et à l'introduction des mécanismes de contrôle adéquats.*

61. Concerning accruals-based accounting, the Council calls on the Commission to continue its direct support to help the Agencies to comply with the rules laid down by its accounting officer. (§ 2, 3rd paragraph, page 32)

**Commission's response:**

*The recommended action has been taken. Concerning accrual based accounting the Commission has provided and will continue to provide extensive guidance to the agencies through general and bilateral meetings, manuals and a helpdesk function for the agencies questions regarding the correct application of the EC Accounting Rules. The last meeting with the Agencies Accounting Officers took place in April 2007.*

*On the IT side the Commission has offered its new accrual based accounting system (ABAC) to the agencies. On 1/1/2007 6 agencies were already using the ABAC system and several more agencies will join the system within the next 2 years. This IT integration project is a major investment of resources on Commissions side and shows its willingness to support the Agencies.*

62. As regards the European Schools, the Council takes note of the fact that the new Financial Regulation adopted by the Managing Board of the European Schools at the end of 2006 takes into account several of the Court's observations and expects that the remained function of the financial controller will promptly be reviewed after the implementation of the internal audit function. (§ 3, 4th paragraph, page 32)

**Commission's response:**

*The Board of Governors decided to maintain the function of Financial Controller (FC) for the following reasons: 1. As schools are small entities, rarely with large financial teams, the Board wanted an additional assurance from the Financial controller, especially in the first three years of a new Financial Regulation (FR) 2. The Financial Controller function constitutes a part of operational management, whereas the Internal Audit function, because of independence requirements, has no operational responsibilities. 3. The role of the Financial Controller is mainly financial, whereas the role of the Internal Auditor also includes audits on systems and procedures. The remaining function of the financial controller will be among the issues considered when the FR will be reviewed in three years time, as foreseen in its art. 104.2.*

## Chapter 11 - Financial instruments and banking activities

63. Pursue all possible means to remedy the serious shortcomings identified by the Court in the management, follow-up and closure of programmes relating to financial operations, and, in particular, enforce effective measures - such as control visits - in respect of the phasing out of MEDIA II, and undertake substantive clearance work for the European Community Investment Partners. (1st and 2nd paragraph, page 33)

### Commission's response:

*As regards MEDIA II, when the MEDIA programmes were transferred to the Education, Audiovisual and Culture Executive Agency (EACEA), certain "old files" from MEDIA II remained to be dealt with. It was agreed that these would be split between the Information Society and Media Directorate-General (DG INFSO) and the Agency in line with the nature of the issues to be dealt with. The cases to be dealt with by DG INFSO are likely to involve negotiations and policy decisions. Analysis of the files is progressing in DG INFSO, the final closure should however not be expected before the end of 2009.*

*Measures have also been taken by the Education, Audiovisual and Culture Executive Agency in different areas identified as critical for the liquidation of the MEDIA II Programme. In particular measures have been taken in relation with the advances reimbursable on condition, as well as for the clearance of the unpaid recovery orders and the closing of "difficult" files. The final closure of some files of the MEDIA II Programme by EACEA is however not expected before 2011.*

*With the creation of a dedicated unit in EuropeAid Co-operation Office (DG AIDCO) in March 2005 the Commission took action to ensure a speedy liquidation of the ECIP programme. Since this date the Commission has closed around 1500 actions which resulted in the recovery of more than € 21 million. At this stage there remain less than 200 actions to close and the liquidation of ECIP is therefore well under way.*

64. The Council takes note that the new Tripartite agreement has been signed between the Court of Auditors, the European Investment Fund and the European Commission and expects further improvements. (3rd paragraph, page 33)

### Commission's response:

*The recommended action has been taken. The Tripartite Agreement was renegotiated between the parties and the new version signed on 16 January 2007.*

65. The Council asks the Commission to clear the backlog relating to coal research projects following the Court's remarks. (4th paragraph, page 33)

### Commission's response:

*Concerning ECSC coal projects, the Commission has started taking the necessary measures to tackle the backlog. The Commitments of which "final due date" was exceeded have since been closed.*

**Special Report No. 4/2005 concerning the Commission's management of economic co-operation in Asia**

66. The Council would encourage the Commission to continue to focus on further enhancing programme delivery, for example through implementation of further and deeper reforms; further improvements to the Financial Regulation and contract procedures. (DOC 5710/07 ADD 2, Annex 1, 1st paragraph, page 3)

**Commission's response:**

*The Commission will continue to enhance aid delivery by closely involving programme stakeholders and other donors from the initial stages of design and by making use of simplified and more flexible delivery mechanisms (e.g. "New practical Guide to contract procedures for external actions", adopted by EuropeAid in May 2007, applying the latest improvements to the Financial Regulation) .*

67. Evidence from improved monitoring and evaluation should feed through into future programme design, including through the diffusion of lessons learnt and updated internal programme guidance for staff. (DOC 5710/07 ADD 2, Annex 1, 3rd paragraph, page 3)

**Commission's response:**

*The Commission agrees with the recommendation and has prepared improved reference and learning material (accompanied by training) for internal project monitoring. The material is based on and stresses lessons learnt and good practice. All evaluations at country level in the Asian region are published on the website of the Commission (under Evaluation). Recent evaluations concern the Commission's intervention in India, China and Bangladesh.*

68. The Council agrees with the Commission's recognition that indicators need to be more closely focused on measuring outputs (impact and effectiveness), rather than inputs. These must be grounded in country priorities and needs. The mandatory use of all aspects of Project Cycle Management, including the LogFrame tool, should help in assessing proposals. (DOC 5710/07 ADD 2, Annex 1, 4th paragraph, page 3)

**Commission's response:**

*Action has been taken to strengthen the focus on outputs through the Results Oriented Monitoring system.*

69. The Council encourages the Commission in its efforts further to improve and simplify application procedures for all of its external action programmes. (DOC 5710/07 ADD 2, Annex 1, 5th paragraph, page 3)

**Commission's response:**

*The Commission has already undertaken major steps in the direction of improvement and simplification of its procedures related to the aid delivery; such measures comprise among other the single Practical Guide for contract procedures for EC external actions applicable for both the European Development Fund and General Budget financed actions (two simplification exercises in 2006 and one more in 2007) as well as the issue of the Practical Guide for Programme estimates financed by the EDF and the General Budget of the EC (project approach).*

*While preparing the latter the Commission services took stock of experiences and proposals from all actors implicated in the policy area, and pursued on another hand its training programme in view of further spreading the adequate knowledge of its procedures.*

## Special Report No. 6/2005 on the Trans-European Network for Transport (TEN-T)

70. The Council notes with concern that the execution of the 14 TEN-T priority projects is behind schedule and only 8 out of the 14 will be completed by the initial deadline of 2010. It takes note of the Court's finding that, in particular, cross-border sections are facing delays as these sections receive less priority at national level and may require greater coordination efforts from the Member States concerned. (DOC 5710/07 ADD 2, Annex 2, §2, 3rd paragraph, page 4)

### Commission's response:

*The slower implementation is a fact that can be more understandable if put in the specific TEN-T context, i.e. major infrastructure investments with considerable budgets, focused often on particularly complicated assignments, involving significant technical, legal and financial risks and therefore frequently subject to delays. To date, 3 projects are already completed, 5 are expected to be completed by 2010, while major parts of 3 other projects will be finished by 2010. With the 2004 revision of the TEN-T policy guidelines, the deadline for the gradual establishment of the TEN has been extended until 2020 (Article 2 (1) Decision 1692/96 as amended in 2004).*

71. The Council supports the Court's recommendation that the Commission amend and complete key aspects of its model financing decision, in particular by defining more clearly the scope of the activities to be co-financed under studies on the one hand and works on the other. (DOC 5710/07 ADD 2, Annex 2, § 3, 2nd paragraph, page 5)

### Commission's response:

*The 2004 and 2005 model financing decisions were progressively developed and address now the weaknesses identified by the Court. In the new TEN Regulation, adopted on 23 May 2007, a clear operational definition for works and studies is included.*

72. The Council supports the Court's recommendation that the Commission develop a consistent and coherent TEN-T evaluation methodology and document it in a publicly available manual. It should also reduce the number of different application and evaluation forms, and revise their content so that all relevant evaluation and selection criteria required by the legislator are covered. (DOC 5710/07 ADD 2, Annex 2, § 4, 5th paragraph, page 5)

### Commission's response:

*The multi-annual character of the MIP (Multi-annual Indicative Programme) does not exonerate the Commission from the annual check of the progress of these projects, neither from the reconsideration of the indicative allocation of aid. In 2005, the application and appraisal forms have been revised to address the observations made by the Court. Further adjustments have been made in 2007 in view of the budget allocations under the new TEN Regulation. The releasing of annual instalments is based on benchmarks.*

73. The Council supports the Court's recommendation that the Commission strengthen the monitoring of projects by defining minimum standards for project status reporting and performing on-site project inspections and ex-post impact assessments more frequently, so that lessons can be learnt on how to implement TEN-T more efficiently and on how to optimise the effectiveness of the Community funding in this area. It looks forward to reviewing the steps the Commission has taken to address these recommendations. The Council welcomes the Commission's response to strengthen the monitoring process and would welcome further efforts in this regard. (DOC 5710/07 ADD 2, Annex 2, § 5, page 6)

**Commission's response:**

*Other elements, such as regular meetings with Member States representatives mostly on occasion of on-the-spot project inspections, guarantee a suitable monitoring and a solid information basis for the work of the Commission. The new model financing decision provides more detailed requirements with regard to the technical and financial reporting. The reporting procedures will be revised as well. However, taking into account the cost/efficiency aspect of its actions, the Commission does not consider that the number of on-site visits is insufficient. As only very few projects are completed, the Commission did not yet carry out ex-post impact assessments but it is planned for the MIP 2000-2006 in 2007. When the TEN-T Executive Agency comes into operation (foreseen for 2008), the capacity for site visits will further increase.*

74. The Court recommends that the Commission considers a return to a centralised form of TEN-T project management within DG TREN, and adapts the number and expertise of the staff resources allocated to TEN-T. (DOC 5710/07 ADD 2, Annex 3, § 6, page 6)

**Commission's response:**

*The Commission is already allocating more staff to the management of the projects, within the limit of the budget available. It has created the TEN-T Executive Agency in October 2006 which is being set up and will become fully operational in 2008. This will increase the Commission's capacity for budget execution tasks.*

75. The Council welcomes the Court's recommendation that the Commission establish, where necessary in co-operation with the Member States, appropriate legal bases, procedures and tools to improve the internal coordination of transport infrastructure funding in order to identify potential cases of over- or double funding. (DOC 5710/07 ADD 2, Annex 2, § 8, page 7)

**Commission's response:**

*The Commission considers that there is no confusion in the institutional responsibilities between DG REGIO and DG TREN. The current framework for coordination (using Inter-Service Consultation) appeared to be effective as no case of double-funding has ever been identified.*



*The Commission has nevertheless taken action (inter alia Memorandum of Understanding with the European Investment Bank signed in June 2005 and the organisation of common missions with DG REGIO), to further strengthen the coordination. Furthermore, in the framework of the negotiations on the new TEN Regulation, the Commission established Guidelines for Member States concerning the combination of funding from different Community sources. These Guidelines are published together with the call for projects proposals for TEN-T funding.*

**Special Report No. 1/2006 on the contribution of the European Social Fund in combating early school leaving**

76. As regards early school leaving (ESL), the Council agrees with the main recommendations of the Court in relation to the actions to be taken: defining and identifying the incidence of ESL; identifying and targeting those most at risk of leaving school prematurely; encouraging the exchange of information and best practice between organisations responsible for tackling ESL; actively promoting the innovative use of ESF funding in tackling ESL. It stresses that both labour market and education authorities and organisations must be involved in tackling ESL. (DOC 5710/07 ADD 2, Annex 3, §§ 9-10, page 9)

**Commission's response:**

*Eurostat collabore déjà avec les Etats membres pour améliorer les définitions statistiques communes pour mesurer les taux de l'ASP. La Commission encouragera les Etats membres à renforcer les procédures existantes visant à l'identification et au ciblage des élèves qui sont le plus à risque de décrochage scolaire. Elle encouragera l'échange d'informations et de bonnes pratiques entre les organisations responsables dans le domaine de l'ASP au niveau local et national. For the period 2007-2013, the ESF will continue to support education and training systems under the "human capital" priority. Whilst retaining a focus on the labour market and the need for adaptation of education and training systems, the new regulatory framework reflects the comprehensive policy approach to education and training. Thus, the scope of the ESF has been broadened to reflect a lifecycle approach to education and there is an increased emphasis on strengthening research and innovation, particularly through enhanced collaboration between education, technology and companies. In the Convergence regions and Cohesion countries, the education and training systems can also benefit from overall reforms of public administrations and public services implemented under the institutional capacity priority.*

77. The Council recalls the links to activities in the education and youth fields, especially to the implementation of the European Youth Pact; it stresses the need for young Europeans to benefit from policies and measures concerning education, training, mobility, vocational integration and social inclusion. The Council calls for coordination between different Community instruments and spending programmes in the fields of employment, lifelong learning including education and training, as well as youth, during the programming period 2007-2013. It stresses the importance of continuous flexibility in the approaches adopted on the basis of the needs and priorities of Member States, where appropriate at the regional and local levels. The Council stresses the importance of mutual learning, including through peer reviews, the exchange of good practice, and the dissemination of information. (DOC 5710/07 ADD 2, Annex 3, §§ 14-17, page 10)

**Commission's response:**

*The Commission is taking the recommended action. In relation to the coordination between different Community instruments and spending programmes, cooperation has been strengthened between the Directorates-General EAC, EMPL, ENTR, REGIO, and SANCO within the two main political instruments "European Youth Pact" and "Open Method of Coordination in the field of youth". In addition, social inclusion, particularly of young people with fewer opportunities, is one of the priorities of the new programme "Youth in Action" 2007-2013. The Structural Funds for the period 2007-2013 were programmed in close cooperation between close cooperation between the Directorates General EAC, REGIO, and EMPL. Both the National Strategic Reference Frameworks and the subsequent Operational programmes have been assessed to ensure that they address education, training, cultural, and youth priorities in particular those directly related to social inclusion such as early school leaving.*

*In relation to the importance of mutual learning the Directorates General EAC, EMPL, and REGIO organise a new process of peer-learning activities, starting in July 2007 for a period of 18 months. This reinforces the structured dialogue in particular with young people with fewer opportunities. An "ad hoc" working group (Cluster on Social Inclusion) has been set up in the context of Education and Training 2010 (MOC for education and training policies). Its first objective is a better knowledge and understanding of early school leaving, and of successful policies and practices in Member States, with a focus on the less favoured groups, and in particular on immigrants. In addition, the European Knowledge Centre on Youth, which will be fully operational at the end of this year, focuses also on exchange of good practice and dissemination of information.*

**Special Report No. 2/2006 concerning the performance of projects financed under TACIS in the Russian Federation**

78. As regards TACIS, the Council approves the recommendations of the Court to the Commission that it should: Base planning of its external action programmes in the Russian Federation on a real dialogue with the relevant Russian authorities; finance only such projects which have clear and mutually shared objectives; realistically appraise the potential for sustainability during the planning phase of projects; ensure the ex-post assessment, or evaluation, of the completed projects; provide information to the public on the projects and their results; further promote the use and implementation of Institution-Building Partnership Programmes.

It encourages the Commission to further develop co-financing as a tool for the future assistance to the Russian Federation and invites the Commission to: Continue efforts to establish a productive dialogue with the authorities of the Russian Federation; pursue work to improve the definition, assessment, notably of sustainability, and ex-post evaluation of projects; raise public awareness in the Russian Federation of its activities under the TACIS and future ENPI programmes. (DOC 5710/07 ADD 2, Annex 4, §§ 4, 6 & 8, page 11-13)

**Commission's response:**

*The Commission has already taken the recommended actions.*

*Cooperation with Russia is now governed by the European Neighbourhood and Partnership Instrument (ENPI). During the programming of the ENPI, attempts have been made by the Delegation, in particular, but also by RELEX headquarters during several missions (October 2005, March 2006, September 2006) to engage the Russian Government in a real dialogue.*

*In order to maximise ownership, financial cooperation is now based on the mutually agreed Common Spaces. The Common Strategy Paper (CSP) 2007-2013, and the accompanying National Indicative Programme (NIP) 2007-2010, set out priorities based on the roadmaps to the Common Spaces. The CSP specifically states that actions to be financed will arise from dialogue between the Commission and the Russian Government over which policy objectives under the Common Spaces should be supported.*

*The External Assistance Reform has strengthened the quality of the projects, i.e. by introducing systematic review of projects/programmes at identification and formulation stages by Quality Support Groups, as well as by systematic use of result-oriented monitoring. On project level also systematic use of the logical framework approach with objectively verifiable indicators is put in place.*

*The Commission systematically carries out sector or countrywide evaluations. It will consider further increasing the number of project-based evaluations. Best practice is to publish all evaluations, including project evaluations, in order to increase transparency and learn from past experience.*

79. The Council invites the Commission to: (1) consider the role it could play in helping affected governments to manage donor coordination more effectively to ensure that needs are met; (2) clarify the respective roles of DG ECHO and DG Environment (Civil Protection Mechanism) in order to ensure a coherent approach, and welcomes the ongoing work on reviewing the Memorandum of Understanding of 16 March 2003 between the aforementioned Directorates General; (3) strengthen the system for monitoring and controlling projects by including written feedback to partners following monitoring visits, developing comparative cost information, and retaining more details on organisational arrangements and quantification of project achievements; (4) address difficulties arisen in projects implemented by UN agencies in the context of the Financial and Administrative Framework Agreement (FAFA); (5) continue to support the leading role of UN OCHA in coordinating the humanitarian aid response. (DOC 5710/07 ADD 2, Annex 5, § 8, page 15)

**Commission's response:**

*The Commission has undertaken the recommended actions.*

*(1) Each State has the responsibility first and foremost to take care of the victims of natural disasters and other emergencies occurring on its territory. Hence, the affected State has the primary role in the initiation, organization, coordination, and implementation of humanitarian assistance within its territory.*

*The magnitude and duration of many emergencies may be beyond the response capacity of many affected countries. In those cases, international cooperation to address emergency situations and to strengthen the response capacity of affected countries is thus of great importance. The Commission recognises the central and unique role of the United Nations in providing leadership and coordinating the efforts of the international community to support the affected countries and provides funding to them in order to allow them to properly discharge their mandate. The Commission also funds humanitarian intergovernmental and non-governmental organizations working in accordance with the humanitarian principles of humanity, neutrality, impartiality and independence which also make a significant contribution in the response to natural disasters. Within this framework, the DIPECHO programmes which provide stand-alone support for community-based preparedness activities are of particular importance and contribute to reinforce national response capacity.*

*In the Communication "Towards a European Consensus on Humanitarian Aid" adopted on 13 June 2007 (COM(2007)317 final), the Commission states that long-term capacity building measures, including early-warning systems at local, national and regional level, joint training and information systems need to be reinforced. Support for local capacity-building, particularly in areas of prolonged or recurrent crises should focus on quality and sustainability with the clear aim of increasing capability for local independent humanitarian action.*

*The Communication also recognises that, given the increased frequency and recurrence of natural disasters, the promotion of disaster risk reduction strategies and preparedness activities is essential. The Commission recognises the need to develop more effective strategies for disaster risk reduction and mitigation and is shaping its aid approach accordingly through stand-alone support for community-based preparedness activities, such as the DIPECHO programme, through mainstreaming of this dimension into EU humanitarian and development aid and through advocacy.*

*The Communication proposes that the EU should:*

- promote international efforts within the Hyogo Framework for Action to increase coping capacities at local, regional level through strategic planning and coordination;*
- mainstream disaster risk reduction in humanitarian and development operations and ensure that adequate EU funding is made available for disaster preparedness and risk reduction activities;*
- establish an overall policy approach to support action in this area.*

*Also in the area of coordination, the Communication states that the effectiveness and impact of the provision of humanitarian aid by the EU could be considerably enhanced by strengthening the co-ordination reflex and practice and sharing experience actively. This would enable all Member States to improve the quality of the overall humanitarian response. Coordinating positions in humanitarian fora and for advocacy makes the EU voice stronger. The EC's extensive humanitarian field presence is a valuable asset that provides a natural focal point for EU representatives working together in emergency response and preparedness, linking coherently into international humanitarian efforts and coordination approaches ('the Cluster System')*

*The Communication also states that the aim of enhanced EU coordination is*

- to act in a concerted way to strengthen and optimise the overall humanitarian response;*
- to promote and support well-organised aid delivery strategies;*
- to share understanding on needs and appropriate responses;*
- to identify gaps and ensure strong arrangements are in place to react before a crisis occurs.*

*(2) In March 2003, DG ENV and DG ECHO agreed on a Memorandum of Understanding (MoU) which was revised in 2007 in the light of the experience gained. The revised MoU on coordination in disaster response includes also DG RELEX. It applies to those disasters outside the EU to which DG ECHO and DG ENV respond. It integrates lessons from the experience gained in the application of the MoU of 2003. The document, which reflects best practice, will be revised as appropriate in the light of future experience gained and lessons learnt in this field. Discussions continue in order to have a better understanding and clarification on*

*tasks and roles to reach an optimum level of coordination of the different actions undertaken in a given disaster to which both Directorates General respond.*

*(3) La DG ECHO fournit le feedback nécessaire des visites de suivi, de la façon la plus appropriée et les partenaires informent la DG ECHO sur les conditions de mise en œuvre, tant lors de la soumission de propositions de financement que lors de la soumission du rapport final relatif à l'opération mise en œuvre.*

*L'établissement d'un coût standard ou d'un coût de référence pour chaque type d'opération humanitaire ou pour tous les types de biens et de services fournis dans le contexte de ces opérations est difficile. En effet, les opérations d'urgence sont mises en œuvre dans différentes parties du monde et dans des conditions très spécifiques (souvent dans des zones difficilement accessibles), ce qui rend la comparaison de coûts extrêmement difficile.*

*(4) As already mentioned in the reply to the Special report on the Tsunami, the Commission and the Court have been given access to the relevant documents, although not immediately.*

*This matter was also discussed at the 4th Annual Meeting of the EC-UN FAFA working group, held in April 2007. This working group recalled the overarching principles for the operation of the verification clause, and took note of the progress made since the last working group of April 2006.*

*(5) The Commission has consistently supported UNOCHA's central role in the coordination of the humanitarian response most recently in its Communication entitled "Towards a European Consensus on Humanitarian Aid" (COM(2007)317 final) where it is stated that the EU recognises and fully supports the central role of the United Nations spearheaded by the Office for the Coordination of Humanitarian Affairs (OCHA) in promoting a coherent international response to humanitarian crises and welcomes the concerted efforts made to reform the humanitarian system.*

*More concretely, in the Communication, the Commission proposes that the EU should support the central coordinating role of the UN in advancing reforms aimed at improving the overall international humanitarian response.*

*DG ECHO is a member of the OCHA Donor Support Group (ODSG) whose main role is to support OCHA in fulfilling its mandate role. The ODSG meets regularly in Geneva and New York at working level and annually at high level. DG ECHO attends directly the meetings or ensures representation through the EC Delegations of Geneva and New York.*

*Every year DG ECHO organises a Strategic Programming Dialogue meeting with OCHA where discussions on humanitarian issues of common concern, operations, funding issues etc. are held.*

*In addition, regular contacts are held both at HQ and field level between DG ECHO's and OCHA's staff. The working relationship between DG ECHO and OCHA is longstanding, close and covers wide-ranging humanitarian issues of common concern.*

*DG ECHO provides substantial regular funding to OCHA to discharge its coordination mandate in humanitarian crisis (approximately 14.300.000 € in 2005 and 10.000.000 in 2006). In addition to the geographical funding, DG ECHO allocates also to OCHA a so-called thematic funding aimed at reinforcing the capabilities of international institutions with a specific mandate in their response to humanitarian crises and so impact on the capacities of other actors. In 2007, the Commission adopted a funding decision entitled 'Supporting the humanitarian reform through thematic funding in favour of UN and Red Cross movement organisations' for an amount of 23 mill €. The provisional amount allocated from this overall decision to OCHA is €3.5 million. This would bring the total contribution from DG ECHO to OCHA thematic funding to € 14.5 million over the period 2004 (first thematic programme) - 2008. The aim would be to further strengthen OCHA's information management systems in order to improve the coordination of humanitarian assistance, thus contributing to the good implementation of the cluster approach.*



**Special Report No. 4/2006 concerning Phare Investment Projects in Bulgaria and Romania**

80. The Council encourages the Commission to take the experience gained into account in the future management of the Community assistance to the candidate countries, in order to ensure its efficiency. This will contribute to securing full benefit from the new Instrument for Pre-Accession Assistance. (*DOC 5710/07 ADD 2, Annex 6, § 5, page 16*)

**Commission's response:**

*The recommended action has been already taken.*

*Experience gained is continuously used in the setting up of IPA. For example, the weaknesses in project design encountered in previous programmes should be avoided via a newly set up Quality Support Group in DG Enlargement.*

81. The Council invites the Commission, in particular in the perspective of the future European Neighbourhood and Partnership Instrument (ENPI):

(1) to define more clearly in the new country and multi-country programming documents the strategic objectives and establish appropriate indicators, to allow for better and regular monitoring and evaluation of the impact of projects and programmes as well as strategy papers; (2) to focus the forthcoming country and multi-country strategy papers on a limited number of intervention areas, ensuring that the ENP Action Plans will provide a key point of reference for setting Community assistance priorities, whilst keeping a degree of flexibility to allow for necessary adaptations; (3) to continue its efforts with regard to increasing the efficiency and effectiveness of programme management and implementation; (4) to strengthen coordination efforts in particular at field level; (5) to take account of the objective of enhancing the visibility of projects and programmes financed by the EU; (6) to distribute a final impact evaluation of the MEDA programme in 2007 that will feed into the future ENPI programmes in a flexible way; (7) to elaborate on the impact of the new practical guide for procurement procedures in ENPI. (DOC 5710/07 ADD 2, Annex 7, § 10, page 18)

**Commission's response:**

*1) The Strategy Papers 2007-13 and the Multi-annual indicative programmes 2007-10 were adopted by the Commission in September 2007. In drafting such documents the Commission has worked on better defining the priorities of each programme and, as provided for by the ENPI regulation, has included in the multi-annual indicative programmes a definition of the performance indicators to be monitored when implementing the measures financed under the programme.*

*(2) The Commission has ENP Action Plans in force with 12 countries. For these countries these documents have been used as the "reference document" to define the co-operation strategy of the Commission. For some countries the Commission has also with the programme established specific facilities to better support the implementation of the Action Plans. Care has been taken to maintain the necessary flexibility to also continue addressing the structural development problems affecting a given country.*

*(3) In order to increase the efficiency and effectiveness of the new ENPI instrument, the Country Strategy Papers and Multi-annual Indicative Programmes were developed in close coordination with the beneficiary countries. Promoting the ownership of partner countries in the selection of the most appropriate cooperation instruments was actively encouraged. In addition, limiting the number of priorities and the concentration of funds in the key sectors of intervention reflects this principle. At implementation level, the Commission will continue to speed up the transition from traditional projects to sector support operation by promoting new Sector-Wide Approach Programmes (SWAPs) and to develop the most efficient method of working based on the lessons drawn from the implementation of the past programme.*

*(4) The Commission will continue to improve its efforts of coordination with the Member States, the other international donors and the Southern ENPI partner countries at all stages of the Project's cycle: from the programming to the implementation at the field level. In this connection, it must be underlined that the Commission has already put in place an effective thematic coordination mechanism in most of its Delegations.*

*(5) Enhancing the visibility of projects is a key issue for the Commission and each project/program already systematically includes a specific budget devoted to visibility.*

*(6) In accordance with the provisions of article 15§5 of the MEDA II regulation, the Commission services have recently launched the final evaluation of the MEDA Programme covering the 2000-2006 period. This final evaluation follows the mid-term evaluation of the Programme made by independent experts in 2005. The final evaluation will allow the Commission services to identify key lessons from the past co-operation activities and how to improve the current and future strategies and implementation modalities for projects and programmes in the Southern ENPI region.*

*(7) As regards the new practical guide for procurement procedures and following the Council recommendations, EuropeAid has elaborated a new version of the Practical Guide to Contract procedures for EC external actions (PRAG). This guide, which is now in force, includes all necessary elements relative to ENPI.*

**Special Report No. 6/2006 concerning the environmental aspects of the Commission's development co-operation**

82. The Council approves the Court's recommendations to the Commission that is invited to: (1) develop a comprehensive strategy outlining how it intends to take forward the environmental aspects of development co-operation, based on the 2005 European Consensus for Development; (2) review its internal financial reporting system to improve the recording of environment-related expenditure within the framework of projects which do not have environment as their primary objective; (3) improve effective environmental mainstreaming, in particular through a better integration of the analysis and results in the Country Environmental Profiles into the Country Strategy Papers; mainstream environment into direct budget support; establish specific procedures for the appropriate environmental screening of all projects, and ensure the Environmental Impact Assessments (EIAs) are undertaken when appropriate, including major infrastructure projects, and that their recommendations are implemented; (4) increase the effectiveness, impact and sustainability of environmental projects through improved appraisal and procurement procedures; greater involvement and support to local communities in sustainable management of natural resources; and by extending the implementation of projects over longer time periods and use a variety of other aid modalities, which could include sectoral programme-based approaches; (5) ensure that adequate capacity is in place to allow effective implementation of the strategy; and that key staff, in particular in country delegations, are provided with training on environmental issues in development co-operation; (6) ensure that a comprehensive performance assessment system is put in place, including monitoring and evaluation processes that allow for continual improvement of the systems in place and ensure that procedures are being adequately followed.

The Council recognises that the Commission is not alone in facing challenges in addressing the environmental elements of development co-operation and therefore encourages the Commission to work together with Member States in addressing these challenges and taking forward appropriate recommendations.

It invites the Commission to present an operational follow-up plan which addresses the recommendations summarised above and sets concrete goals and timetables and to report, on an annual basis, to the Council on the implementation. (*DOC 5710/07 ADD 2, Annex 8, §§ 4-7, page 19-20*)

**Commission's response:**

***The Commission is preparing an Action Plan and will report to Council in 2008.***

**Special Report No. 7/2006 concerning Rural Development Investments: Do they effectively address the problems of rural areas?**

The Council has made no specific recommendations to the Commission.

**Commission's comment:**

*No reply necessary.*

**Special Report No. 8/2006 - Growing success? - The effectiveness of the EU support for fruit and vegetable producers' operational programmes**

83. The Council asks the Commission to take into account the recommendations of the Court as one contribution in its forthcoming proposal for the reform of the Common market organisation of fruit and vegetables. (DOC 5710/07 ADD 2, Annex 10, § 2, page 22)

**Commission's response:**

*The recommended action has been taken.*

*There was a political agreement in the Council on 12 June 2007 in favour of the Commission's proposal for reform of the fruit and vegetable sector, and the adoption of the reform is foreseen in September 2007. Recommendations from the Court have been taken into account in the reform.*

*In order to recognise producer organisations Member States have to make sure that there is sufficient evidence that the organisations can carry out their activities properly, in terms of effectiveness and of concentration of supply.*

*Member States also have to establish a national strategy for sustainable operational programmes that must provide for an ex-ante analysis, the objectives of operational programmes and instruments, as well as performance indicators and reporting obligations for producer organisations.*

*Crisis will be managed through producer organisations. A wide range of measures will be available apart from withdrawals, such as green harvesting, non-harvesting, harvest insurance, financing of the administrative cost of the setting up of mutual funds, promotion and communication and training measures.*

*In addition to the 2009 evaluation, the Commission is committed to present a report on producer organisations, operational funds and operational programmes by 31 December 2013 at the latest. The Commission has also noted that the progress made concerning the concentration of supply in the fruit and vegetables sector is very different from one Member State to another. The Commission has concluded from its analysis in the light of the success stories that it is still worth keeping producer organisations but that their attractiveness should be improved so that they have a better chance to grow and/or multiply.*

*Simplification is one of the Commission's priorities and a major objective of this reform. To this end, the fruit and vegetable sector will be included in the Single Payment Scheme. Everything will be done to reduce the administrative burden and costs for all concerned. Special attention will be devoted to this issue when drawing up the implementing rules.*

**Special Report No. 10/2006 on ex post evaluations of Objectives 1 and 3 programmes 1994-1999 (Structural Funds)**

84. The Council takes good note of the extensive and analytical report of the Court of Auditors and welcomes the recommendations made therein. It agrees that well focussed, high quality ex post evaluation is essential in the development of better policy programming and implementation and concludes that adequate resources are needed in order to ensure that shortcomings experienced in the past are avoided in the future.

The Council is aware that further improvements have been introduced for the upcoming Structural Funds period 2007-2013, and considers that the evaluation methodology should continue to be addressed.

The Council considers that the existing partnership among the Commission, the Member States, the research community and stakeholders should continue to address methodological aspects of evaluation, such as those raised by the Court of Auditors report, and to propose solutions, as appropriate. (DOC 5710/07 ADD 2, Annex 11, §§ 1-6, page 23)

**Commission's response:**

*The Commission is taking the recommended action. The Commission is carefully planning the ex post evaluation of 2000-06 period programmes in order to address the problems of data availability and quality and to focus the scope of the exercise on a small number of essential evaluation questions in order to deepen the analysis. It intends to build on the partnership with the research community to optimise the utility of the results. It will allocate adequate resources to the exercise.*

## European Development Funds

85. Notes that the Commission will provide additional information on certain points in next year's report (Financial Management Report 2006). (Doc. 6290/07, ANNEX, page 3, second paragraph)

**Commission's response:**

*As recommended, the Commission has addressed, in some more depth, the 3 subjects mentioned by the Council on the 2006 EDF Financial Management Report. Given resource constraints, sound financial management and quality of aid delivery were defined as top priorities. The EDF Financial Management Report informs that in 2006 the Commission met all financial objectives for the EDF, whereas it lists the responses given by the Commission to the findings of the Court included in the ECA Annual Report and also on the Special Report on EDF budget support.*

86. Shares the ECA's view that the underlying reasons for the Commission's conclusions on the eligibility of ACP countries for budget support should be presented in a more formal and structured way, and that links with the supervisory institutions of ACP States receiving budget support should be strengthened. (Doc. 6290/07, ANNEX, page 4, first paragraph)

**Commission's response:**

*The 2006 EDF Financial Management Report informs on the follow-up given by the Commission to the findings of the Court of Auditors on budget support, in particular to indicate that the Methodological Guide has been revised to provide clearer criteria for identifying whether a country has complied with eligibility criteria before funds are disbursed and that it was preparing a framework to provide technical support to Supreme Audit Institutions in the countries benefiting from budget support.*

87. Notes with satisfaction that the ECA's audit has shown that the Commission's main supervisory and control systems have steadily improved in recent years, and that the Commission intends to reduce the incidence of all types of errors. Supports the ECA's recommendation inviting the Commission to draw up an overall supervision strategy defining clear and consistent objectives. (Doc. 6290/07, ANNEX, page 5, first paragraph)

**Commission's response:**

*The Commission has set up an Action Plan "Towards an Integrated Internal Control Framework" which addresses the main gaps identified in the control framework. This includes formalisation and harmonisation of the presentation of the internal control strategies, the aim of which is to provide an overall view of the internal control flow and related accountability chain and to document how associated risks are addressed. Work is ongoing in line with and following the schedule of the Action Plan.*